

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

BOSTON GAS COMPANY D/B/A
KEYSPAN ENERGY DELIVERY
NEW ENGLAND

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D.T.E. 03-40

INITIAL BRIEF OF
MASSACHUSETTS DEVELOPMENT
FINANCE AGENCY

I. INTRODUCTION

On April 16, 2003, Boston Gas Company d/b/a Keyspan Energy Delivery New England (“Boston Gas” or the “Company”) filed with the Department of Telecommunications and Energy (“Department” or “D.T.E.”) a request for an annual increase to distribution revenues of \$61.3 million and for authority to implement a proposed five-year price-cap plan. Pursuant to notice duly issued, the Massachusetts Development Finance Agency (“MDFA”) was granted intervenor status in this proceeding. In accordance with the established procedural schedule, the MDFA hereby submits its Initial Brief.

MDFA is a quasi-public real estate economic development agency tasked with stimulating economic investment across Massachusetts. MDFA manages the Devens Regional Enterprise Zone (“Devens”), formerly the Army’s New England Headquarters, and provides, under the authority granted to it by c. 498 of the Acts of 1993, a variety of municipal utility and other services to residences, State and Federal entities, and more than 76 businesses in Devens.

MDFA is a retail distribution customer of Keyspan in the G-44 rate class. Given MDFA's economic development activities and status as one of the Company's largest customers, MDFA's ability to carry out its legislative mandate would be negatively affected if the Company's proposal is approved.

As discussed below, MDFA urges the Department to reject the Company's proposed rate redesign for the G-44 class and to limit bill impacts to all customers. Although MDFA will not address the specifics of the Company's price cap proposal in detail here, it strongly urges the Department to consider whether a proposal that assures steady annual rate increases for a period of five years or more is truly better for retail customers. Although MDFA has addressed only limited aspects of the Company's proposal in its Initial Brief, MDFA reserves the right to respond to any issues raised by the Company on reply.

II. BOSTON GAS' RATES MUST BE ADJUSTED TO COMPLY WITH DEPARTMENT RATE DESIGN PRINCIPLES

A. Rate G-44 Redesign

Boston Gas has proposed to modify the rate design for rate G-44 from the existing demand proxy method to a volumetric rate. Exh. KEDNE/ALS-1, at 27. Coupled with a nearly flat per therm charge between the peak and off-peak period charges and an increase of roughly \$60 to the customer charge, the Company's proposed rate G-44 would cause substantial customer increases.

B. Overview of Department Rate Design Principles

The Department has stated that utility rate structures must be efficient, simple, and ensure continuity of rates, fairness between rate classes, and corporate earnings stability. Berkshire Gas Company, D.T.E. 01-56, at 134, citing Boston Gas Company, D.P.U. 96-50 (Phase I), at 133

(1996); Boston Gas Company, D.P.U. 93-60, at 331-332 (1993); Berkshire Gas Company, D.P.U. 92-210, at 201 (1993). Efficiency is defined as a rate structure that ensures recovery of the cost of providing the service and provides an accurate basis for customers' decisions about how best to fulfill their needs. Id. Efficiency in rate structure "means that it is cost-based, and recovers the cost to society of the consumption of resources to produce the utility service." Id. at 135 The Department has defined rate simplicity to mean whether a rate structure is easily understood by consumers. Id. The Department has defined fairness to mean that "no class of consumers should pay for more than the costs to serve that class." Id. Finally, earnings stability has been defined by the Department as meaning that the amount a company earns from its rates should not vary significantly over a period of one or two years. Id.

C. Boston Gas' Proposed Rate G-44 Does Not Meet the Department's Rate Design Standards

Boston Gas' proposed rate G-44 deviates from the Department's rate design principles in a manner that will be harmful to G-44 customers. Although Boston Gas has committed to limiting rate increases on a total bill basis to 10% for residential customers (Exh. KEDNE/JFB-1, at 3), or roughly a 25% increase in the distribution rates (Tr. 3, at 300), there is no similar commitment to protect commercial and industrial ("C&I") customers from substantial rate impacts. Exh. MDFA 1-7; Tr. 3, at 308. Essentially, Boston Gas' proposal to cap impacts to residential customers will simply shift more revenues to be recovered from the C&I rate classes. This proposal violates the Department's fairness principle and must be rejected. Boston Gas' proposed G-44 rates also violate the Department's rate continuity guidelines. If the Company's proposed rates are approved, all 380 G-44 customers would experience a greater than 10% increase on a total bill basis. Exh. MDFA 1-8; Tr. 3, at 308-309. In fact, the range of

annual bill impacts for G-44 customers would be between 14.6% and 50.2%. Exh. MDFA 1-5. Peak period increases for G-44 customers would range from 14.6% to 36.9% and off-peak period bill impacts for G-44 customers would range from 14.6% to a staggering 134.9%. Exh. MDFA 1-5. The MDFA, the Company's 13th largest customer (RR-MDFA-1), could expect to see total bill increases of 46.1% annually, 25.9% in the peak period, and 157.9% in the off-peak period. Exh. MDFA 3-6 (revised); Tr. 3, at 314. The Company's witness concedes that these proposed increases would constitute **rate shock**. Tr. 3, at 355. In order to temper rate impacts and maintain continuity, the Department must direct Boston Gas to limit rate increases, both on a per class and per customer basis. As can be seen from the Company's analysis of MDFA's rate impacts, the impact on individual customers can vary widely from the average rate impact in a class. Thus, the Department must take measures to ensure that all customers are protected from unacceptable rate increases. Boston Gas should be required to limit the rate impact on all customers to no more than 10%.

D. Boston Gas' Proposed G-44 Rate Redesign is Unwarranted and Must be Rejected

Boston Gas has proposed to modify the current G-44 rate design by eliminating the proxy-based demand rate and substituting a volumetric rate, that would have little differential between the peak and off-peak periods. Mr. Silvestrini's testimony suggests that this rate redesign is necessary because (1) customers find the existing G-44 rate confusing, (2) cost-effective demand meters are not available, (3) the competitive market has not developed as expected at the time of the Company's previous rate case, (4) customers will receive more appropriate price signals, and (5) the increased cost recovery in the off-peak period contributes to earnings stability. Exh. KEDNE/ALS-1, at 27. MDFA submits that the record does not establish that these circumstances warrant such a complete and drastic redesign of rate G-44.

The Company has not demonstrated that actual customer confusion with the current rates is significant, or that it would be cured by the proposed rate redesign. First, it does not appear that the Company even tracks such complaints consistently. Exh. DTE 10-19. In addition, what evidence the Company did produce suggests a level of roughly 6 calls per month from the 545 customers in rates G-44 and G-54. Exhs. DTE 3-7, DTE 10-19; Tr. 3, at 347. This information hardly supports the assertion that there is widespread customer confusion or dissatisfaction with the existing rate. Moreover, customer dissatisfaction is likely to increase substantially as a result of the rate impacts and significant rate redesign that the Company has proposed.

Regarding availability of cost-effective demand meters, the record shows that roughly 60 out of a total 380 G-44 customers, more than 15%, including many of the larger G-44 customers, already have demand meters in place. Exh. MDFA 1-3; RR-MDFA-4.. The actual costs provided by the Company for demand meters, ranging from \$1,645 to \$10,300 (Exh. MDFA 1-2) would not appear to be cost prohibitive, particularly where customers would experience appropriate price signals by continuing a demand-based rate structure. Although the Company suggests that demand meter costs could range from 3 to 17 percent of a customer's annual bill, the Company has also conceded that the customers that have installed demand metering tend to be the larger customers. Exh. MDFA 1-2; RR-MDFA-4. In addition, the cost of a demand meter would not be recovered in a single lump sum, but rather would be amortized over some appropriate period of time. Thus, the Company's depiction of demand metering costs as a percentage of annual bills is not necessarily representative of how such costs would actually be billed to customers.

MDFA would agree that the Company's rate design would send more appropriate price signals to the extent that rates would be based on current period consumption. However, MDFA

disagrees that movement to a volumetric rate sends appropriate price signals, particularly given the high level charge in the off-peak period. In fact, the Company's witness conceded that the move to a volumetric rate from a demand-based rate does skew the price signal to customers. Tr. 3, at 351. It appears that Boston Gas has placed its shareholders interests above those of its customers. MDFA also questions how the Company's suggestion that sending appropriate price signals in this instance is compatible with its proposal to alter actual price signals to customers by implementing its weather stabilization clause. By its very nature, such a weather clause would mean that the customers are not receiving actual price signals for actual usage.

The Company clearly has struggled with rate design for the G-44 customers over the past several years. In Boston Gas' 1993 rate case, the Department approved a cost-based customer and demand charge as consistent with providing appropriate price signals to customers and meeting the Department's efficiency goal in rate design. Boston Gas Company, D.P.U. 93-60 (1993); Exh. MDFA 2-3. In the Company's 1996 rate case, a variety of proposed G-44 rate designs were floated by the Company. Exh. MDFA 2-1. In its Order in that case, the Department rejected Boston Gas' proposal to move rate G-44 to a volumetric rate. See, D.P.U. 95-60, at 163. The Department should do the same here.

Boston Gas also cites the lack of development of a competitive market as a basis for eliminating the demand-based rate. Although the market may not have developed as rapidly as was previously expected, movement away from demand-based rates for some of the Company's largest customers could further stall development of competitive options.

In sum, MDFA suggests that the Company's proposed rate redesign for G-44 be rejected and that the Department direct Boston Gas to limit potential rate increases for all customers.

Boston Gas should be directed to further study the feasibility of implementing demand meters for

all G-44 customers and whether the G-44 class should be further segregated to ensure that the rates paid by all customers meet the Department's rate design goals. Boston Gas has not demonstrated that the bases it cited for redesigning the G-44 rates warrant the proposed change or that its proposed redesign is consistent with the Department's rate design standards. Accordingly, MDFA requests that Boston Gas be directed either to (1) maintain the existing proxy-demand based rate design for G-44, or (2) establish a separate demand rate for G-44 customers that have demand meters or wish to have demand meters installed. These would tend to be the larger, high load factor customers.

III. CONCLUSION

WHEREFORE, the Massachusetts Development Finance Agency respectfully requests that the Department deny Boston Gas' requested rate design and grant the relief requested herein.

Respectfully submitted,

MASSACHUSETTS DEVELOPMENT
FINANCE AGENCY

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